

Message Text

LIMITED OFFICIAL USE

PAGE 01 LISBON 06073 01 OF 02 042310Z
ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 /086 W
-----095610 042339Z /12
R 041719Z AUG 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 2507

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 6073

DEPT. PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: EFIN, ECON, PO
SUBJECT: PLANNING MINISTER DISCUSSES ECONOMIC SITUATION
AND AUSTERITY MEASURES

REF: A) LISBON 5965 B) LISBON 5502

SUMMARY. MINISTER OF PLANNING AND ECONOMIC DEVELOPMENT SOUSA GOMES GRANTED LONG INTERVIEW ON AUGUST 3 TO LISBON DAILY "A CAPITAL." MINISTER DISCUSSED AND DID NOT RULE OUT ESCUDO DEVALUATION, ANNOUNCED SEVERAL AUSTERITY MEASURES WOULD HAVE TO BE TAKEN, EVEN AT EXPENSE OF CONTINUED RECUPERATION OF PRODUCTION, AND DISCUSSED UPCOMING NEGOTIATIONS WITH IMF. HE ALSO POINTED OUT IMPROVED CURRENT ECONOMIC SITUATION AND DISCUSSED PROSPECTS FOR REST OF 1977. END SUMMARY.

1. SOUSA GOMES BEGAN INTERVIEW BY DENYING THAT ECONOMY IS IN DISASTROUS SHAPE. GNP ROSE AT 7.5 PERCENT RATE IN THE FIRST HALF OF 1977, AND TOTAL 1977 INCREASE SHOULD BE ABOVE LAST YEAR'S 6 PERCENT RATE. HE POINTED OUT THE PARTICULAR STRENGTH OF INDUSTRY (UP 10 PERCENT), THE CONSTRUCTION SECTOR (UP 12 PERCENT), ENERGY (UP 11 PERCENT) AND INVESTMENT (UP 14 PERCENT). TOURISM AND EMIGRANT REMITTANCES ARE UP SUBSTANTIALLY, ALTHOUGH HE ADMITTED NOT ENOUGH TO OFFSET UNFAVORABLE BALANCE OF TRADE PERFORMANCE. COMMERCIAL TRADE DEFICIT GREW FROM \$925 MILLION IN JANUARY-JUNE 1976 PERIOD TO \$1,025 MILLION IN THE SAME 1977 PERIOD. THUS TOTAL CURRENT ACCOUNT DEFICIT ONLY DROPPED \$100 MILLION

LIMITED OFFICIAL USE

PAGE 02 LISBON 06073 01 OF 02 042310Z

PERCENT), ENERGY (UP 11 PERCENT) AND INVESTMENT (UP 14 PERCENT). TOURISM AND EMIGRANT REMITTANCES ARE UP SUBSTANTIALLY, ALTHOUGH HE ADMITTED NOT ENOUGH TO OFFSET UNFAVORABLE BALANCE OF TRADE PERFORMANCE. COMMERCIAL TRADE DEFICIT GREW FROM \$925 MILLION IN JANUARY-JUNE 1976 PERIOD TO \$1,025 MILLION IN THE SAME 1977 PERIOD. THUS TOTAL CURRENT ACCOUNT DEFICIT ONLY DROPPED \$100 MILLION

TO \$550 MILLION. MINISTER CONCLUDED THAT BALANCE OF PAYMENTS IS THE PRINCIPAL NEGATIVE ASPECT OF THE ECONOMY AND PERFORMANCE HAS TO BE IMPROVED.

2. HE DESCRIBED FEBRUARY DEVALUATION AS INEVITABLE BECAUSE INTERNAL COSTS HAD RISEN UNCONTROLLABLY AFTER APRIL 25. HE THEN STATED THAT IN VIEW OF CONTINUED INFLATION, MERE MEASURES LIKE DEVALUATION WOULD NOT WORK. AMONG MEASURES GOP WOULD HAVE TO TAKE ARE A MORE SELECTIVE CREDIT POLICY TO PROVIDE DISINCENTIVES TO IMPORT BASED GROWTH; FURTHER REDUCTION OF GOP BUDGET DEFICITS, ESPECIALLY ON CURRENT ACCOUNT; AND FURTHER WAGE/PRICE POLICY MEASURES. WITH REGARD TO THE BUDGET DEFICIT. SOUSA GOMES SPECIFICALLY NOTED THE NEED TO CUT CURRENT UNPRODUCTIVE STATE EXPENDITURES; ELIMINATE ABUSES OF THE SOCIAL SECURITY SYSTEM, WHICH CONTINUES TO BE IN SERIOUS DEFICIT; AND DRASTIC REDUCTION IN THE CONCESSION OF STATE SUBSIDIES TO NONVIABLE FIRMS.

3. THE MINISTER ACKNOWLEDGED THAT THE ABOVE MEASURES WOULD ADVERSELY AFFECT PRODUCTION AND JOB CREATION. SOUSA GOMES STATES THAT GOP MEASURES WOULD HAVE TO BE SELECTIVE IN ORDER TO GUARANTEE THAT RATE OF UNEMPLOYMENT DID NOT INCREASE. THROUGHOUT THE INTERVIEW HE NOTED GOP'S DETERMINATION TO CUT CONSUMPTION IN ORDER TO INCREASE INVESTMENT. HE SAID THE SERIES OF MEASURES TO BE TAKEN WOULD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 06073 01 OF 02 042310Z

COMPLEMENT THOSE TAKEN IN FEBRUARY.

4. MINISTER NOTED THAT THE PRIVATE SECTOR HAD SHOWN SUBSTANTIAL DYNAMISM AND EMPHATICALLY DENIED THAT THE PUBLIC SECTOR MANAGEMENT IS AS BAD AS MANY OBSERVERS ALLEGE. HE POINTED OUT THAT THE MEDIUM TERM PLAN PROVIDES A MAJOR ROLE FOR THE PRIVATE SECTOR.

5. SOUSA GOMES WAS ASKED WHETHER THE IMF WAS TRYING TO IMPOSE CONDITIONS HARMFUL TO THE ECONOMY. HE ANSWERED BY STATING THAT THE IMF HAS NOT IMPOSED ANY CONDITIONS, NOR DO ANY PREVIOUS AGREEMENTS EXIST. GIVEN THE FACT THAT THE COUNTRIES WHICH HAVE AGREED TO LEND \$750 MILLION TO PORTUGAL DESIRE THAT PORTUGAL NEGOTIATE A SECOND TRANCHE WITH THE IMF BEFORE THE LOAN'S DISBURSEMENT, THE GOP WOULD BE OBLIGED TO NEGOTIATE. BECAUSE THE GOP CONSIDERS IT UNACCEPTABLE THAT THE PUBLIC MIGHT SUPPOSE THAT CONDITIONS HARMFUL TO PORTUGAL MIGHT BE IMPOSED, IT HAS DECIDED THAT THE NEGOTIATIONS AND THE PROPOSED MEASURES WILL BE MADE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LISBON 06073 02 OF 02 042310Z
ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 /086 W
-----095615 042338Z /12

R 041719Z AUG 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 2508

LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 6073

DEPT PASS TREASURY FOR SYVRUD

PUBLIC. THE MEASURES TO BE TAKEN WILL NOT BE IMF-
IMPOSED BECAUSE THEY ARE LOGICAL AND INDISPENSABLE ONES
THAT THE GOP HAS BEEN PREPARING FOR THE PAST SEVERAL
MONTHS. SOME WERE ANNOUNCED IN FEBRUARY; THE OTHERS WILL
COME SOON.

6. COMMENT: MINISTER'S INTERVIEW IS A CONSIDERED, STRONG
STATEMENT OF INTENTION TO TAKE ADDITIONAL TOUGH AUSTERITY
MEASURES. IT CONTRASTS WITH HIS STATEMENT OF AUGUST 1
THAT NO SPECTACULAR MEASURES WOULD BE NEEDED AND IS FIRST
PUBLIC DETAILED INDICATION FROM GOP SINCE RECENT IMF VISIT
THAT IT WILL TAKE NEW MEASURES. PS INSIDER CONFIRMED TO US
THAT SOUSA GOMES STATEMENT WAS AUTHORITATIVE AND DESIGNED TO
SIGNAL A CHANGE. IT IS ESPECIALLY SIGNIFICANT SINCE SOUSA
GOMES HEADED THE GOP DELEGATION DURING THE RECENT IMF TALKS.

7. THE STATEMENTS ABOUT CONTAINING THE CURRENT GOVERNMENT
CONSUMPTION IN ORDER TO INCREASE INVESTMENT APPEARS CONTRARY TO
THE REVISED 1977 BUDGET WHICH PROJECTS TOTAL EXPENDITURES UP
8 PERCENT WITH CURRENT COSTS RISING 9-1/2 PERCENT, COMPARED TO
ONLY A 3 PERCENT RISE IN INVESTMENT. THE DISCUSSION ABOUT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 06073 02 OF 02 042310Z

DEVALUATION WAS INCONCLUSIVE. HOWEVER, IT WILL BE TAKEN BY
MANY AS A CLEAR INDICATION ANOTHER DEVALUATION IS IMMINENT.

THE MEASURES MENTIONED BY SOUSA GOMES RELATING TO THE
BUDGET DEFICIT, SUBSIDIS, CREDIT RESTRICTIONS, ETC. ARE
ALMOST IDENTICAL WITH THOSE THE PRESS HAS CHARACTERIZED
AS DEMANDS FROM THE IMF.
CARLUCCI

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON06073
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770280-0347
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770897/aaaadepo.tel
Line Count: 175
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1ca7fc61-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LISBON 5965, 77 LISBON 5502
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1710457
Secure: OPEN
Status: NATIVE
Subject: PLANNING MINISTER DISCUSSES ECONOMIC SITUATION AND AUSTERITY MEASURES
TAGS: EFIN, ECON, PO
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1ca7fc61-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009